2 Dividend-Growth Stocks to Bet on Rising Interest Rates

Description

How an income investor can benefit from rising interest rates?

Rising rates point to an economy where businesses are generally expanding, requiring more borrowing with a little threat of default. This environment bodes very well for financial services companies, insurance providers, and brokerage houses.

Banks, in an upbeat economic environment, usually earn more from the spread between what they pay to savers on their saving accounts and what they earn from investing in risk-free government bonds.

In Canada, a second interest rate increase seems almost a done deal now after a slew of positive economic data suggested that the Canadian economy is on a solid footing and the recovery is wide spread.

After a report last week that showed Canada's gross domestic product expanded 0.6% in May, strengthened by growth in the energy, manufacturing, and retail trade sectors, interest rate futures priced in nearly a four in five chance that the Bank of Canada will raise its benchmark policy rate again in October.

The next possible interest rate hike comes following the central bank's July tightening move. If you're an income investor looking to increase your exposure in this upbeat environment for the Canadian economy, I've shortlisted two dividend stocks to consider.

Toronto-Dominion Bank

Look inside Canada, and you'll find **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), which is nicely positioned to benefit from rising interest rates.

In the most recent quarter, TD reported $1.34 per share in earnings — higher than analysts' expectations of $1.24, and 12% higher than the previous year's earnings of $1.20.

Another strength which differentiates TD from other local banks is its strong presence in the U.S., where the bank runs more branches than it does in Canada. As the Fed is also hiking interest rates there, outlook for TD's U.S. business is also quite bright. TD's retail income from the U.S. was up 18% when compared to the same period a year ago.

After a 5% increase in its dividend this year, income investors earn $0.60 quarterly dividend. With a dividend yield of 3.75% and a manageable payout ratio of 45%, investors will likely get future increases as this solid Canadian financial institution earns more cash.

With TD stock down 9% from its February high, it's a good time for income investors to take advantage of the opportunity to add on to their financial exposure. The stock trades at 12.7 times its last 12 months of earnings, and doesn't look expensive when you compare it with its peers in the financial space.

CI Financial Corp.

My second pick to bet on higher interest rates is **CI Financial Corp.** (TSX:CIX), one of Canada's leading wealth managers. CI Financial has a well-diversified wealth management business with $121.3 billion assets under management as of June 30.

This stock also fits nicely in your monthly income portfolio because the company pays a $0.1175 per share monthly dividend — offering a yield of about 5.07%.

As interest rates rise, CI Financial stands to benefit from an improving economy and increased trading volumes. Investors will benefit from the company's potential dividend hikes in the future. CI Financial has raised its payouts for seven straight years.

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